

**Dimensions Health  
Corporation and Subsidiaries**

**Audited Consolidated Financial  
Statements**

**June 30, 2014 and 2013**



**DIXON HUGHES GOODMAN<sup>LLP</sup>**  
Certified Public Accountants and Advisors

Consolidated Financial Statements  
**Dimensions Health Corporation and Subsidiaries**  
June 30, 2014 and 2013

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**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

## **Report of Independent Auditors**

Board of Directors  
Dimensions Health Corporation and Subsidiaries

We have audited the accompanying financial statements of Dimensions Health Corporation and subsidiaries (the Corporation), which comprise the balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion based on our audit, the 2014 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dimensions Health Corporation and Subsidiaries as of June 30, 2014, and the consolidated results of its operations, changes in net assets (deficit) and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The consolidated financial statements as of June 30, 2013, were audited by Cohen, Rutherford + Knight, P.C., certain of whose shareholders joined Dixon Hughes Goodman LLP as of June 1, 2014, and whose report dated October 2, 2013, expressed an unmodified opinion on those statements.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements as a whole. The 2014 consolidating information on pages 45-48 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2014 information has been subjected to the auditing procedures applied in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information is fairly stated in all material respects in relation to the 2014 consolidated financial statements as a whole. The 2013 consolidating information on page 48 was subjected to the auditing procedures applied in the 2013 audit of the consolidated financial statements by Cohen, Rutherford + Knight, P.C., whose report on such information stated that it was fairly stated in all material respects in relation to the 2013 consolidated financial statements as a whole.

*Dixon Hughes Goodman LLP*

Tysons, Virginia  
October 17, 2014

Consolidated Balance Sheets  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	June 30	
	<u>2014</u>	<u>2013</u>
<i>ASSETS</i>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 24,650	\$ 39,868
Patient accounts receivable, net of allowance for uncollectible accounts (\$27,071 and \$44,721 in 2014 and 2013, respectively)	49,362	38,734
Other receivables	2,620	5,519
Inventories	6,299	5,445
Current portion of assets limited to use-- <i>Note C</i>	0	4,721
Prepaid expenses and other assets	6,398	5,775
<b>TOTAL CURRENT ASSETS</b>	<u>89,329</u>	<u>100,062</u>
Assets limited as to use-- <i>Note C</i>		
Restricted cash and cash equivalents-- <i>Note I</i>	3,458	3,408
Short term investments-- <i>Note I</i>	2,959	2,986
Held in trust under bond and note indentures-- <i>Note E</i>	0	6,594
Investments held for self insurance-- <i>Note G</i>	41,913	43,454
Total assets limited as to use	<u>48,330</u>	<u>56,442</u>
Property and equipment, net-- <i>Note D</i>	66,824	69,261
Investments-- <i>Note K</i>	3,882	4,529
Deferred financing costs, net	74	262
Other noncurrent assets	4,128	3,636
<b>TOTAL ASSETS</b>	<u>\$ 212,567</u>	<u>\$ 234,192</u>

(Continued)

Consolidated Balance Sheets - Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	June 30	
	2014	2013
<i>LIABILITIES AND NET ASSETS (DEFICIT)</i>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt-- <i>Note E</i>	\$ 1,424	\$ 5,016
Current portion of accrued employee benefit liabilities-- <i>Note H</i>	10,539	10,099
Accounts payable and accrued expenses	36,451	52,473
Accrued compensation and related items	14,385	14,031
Advances from third-party payers	13,926	12,386
<b>TOTAL CURRENT LIABILITIES</b>	<u>76,725</u>	<u>94,005</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion-- <i>Note E</i>	4,440	54,893
Other liabilities:		
Accrued professional liabilities-- <i>Notes G and J</i>	26,870	27,289
Accrued employee benefit liabilities, net of current portion-- <i>Note H</i>	52,848	65,907
Total other liabilities	<u>79,718</u>	<u>93,196</u>
<b>TOTAL LIABILITIES</b>	160,883	242,094
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	47,544	(12,091)
Temporarily restricted	4,140	4,189
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>51,684</u>	<u>(7,902)</u>
<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	<u>\$ 212,567</u>	<u>\$ 234,192</u>

See notes to the consolidated financial statements.

Consolidated Statements of Operations  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>UNRESTRICTED REVENUE AND OTHER SUPPORT</b>		
Patient service revenue (net of allowances and discounts)	\$ 376,303	\$ 360,131
Provision for bad debts	(34,442)	(32,978)
Net patient service revenue-- <i>Note J</i>	<u>341,861</u>	<u>327,153</u>
Other operating income-- <i>Note B</i>	<u>40,549</u>	<u>38,789</u>
<b>TOTAL UNRESTRICTED REVENUE AND OTHER SUPPORT</b>	382,410	365,942
<b>OPERATING EXPENSES--<i>Note F</i></b>		
Salaries and benefits-- <i>Note H</i>	219,001	216,313
Supplies	50,594	51,757
Purchased services-- <i>Note I</i>	65,823	57,497
Physician fees	26,876	26,369
Utilities	4,665	2,965
Interest expense	1,437	3,343
Depreciation and amortization	<u>12,779</u>	<u>11,183</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>381,175</u>	<u>369,427</u>
<b>INCOME (LOSS) FROM OPERATIONS BEFORE OTHER INCOME--<i>Note B</i></b>	1,235	(3,485)
<b>OTHER INCOME</b>		
Investment income-- <i>Note C</i>	2,434	2,257
Gain on early extinguishment of debt-- <i>Notes B and E</i>	43,622	0
Other	<u>136</u>	<u>0</u>
<b>TOTAL OTHER INCOME</b>	<u>46,192</u>	<u>2,257</u>
<b>EXCESS (DEFICIT) OF UNRESTRICTED REVENUE AND OTHER SUPPORT OVER EXPENSES</b>	<u>\$ 47,427</u>	<u>\$ (1,228)</u>

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Deficit)  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Changes in unrestricted net assets (deficit):</b>		
Excess (deficit) of unrestricted revenue and other support over expenses	\$ 47,427	\$ (1,228)
Appreciation of other-than-trading investments		
-- <i>Note C</i>	0	3
Net assets released from restriction for capital acquisition	253	699
Change in employee benefit obligation-- <i>Note H</i>	11,955	28,349
<b>INCREASE IN UNRESTRICTED NET ASSETS (DEFICIT)</b>	<b>59,635</b>	<b>27,823</b>
<b>Changes in temporarily restricted net assets:</b>		
Contributions	1,083	2,042
Change in beneficial interest in net assets of Foundations		
-- <i>Note K</i>	(99)	119
Net assets released from restriction for operations	(780)	(678)
Net assets released from restriction for capital acquisition	(253)	(699)
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>(49)</b>	<b>784</b>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	<b>59,586</b>	<b>28,607</b>
<b>NET DEFICIT, BEGINNING OF YEAR</b>	<b>(7,902)</b>	<b>(36,509)</b>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ 51,684</b>	<b>\$ (7,902)</b>

See notes to the consolidated financial statements.



Consolidated Statements of Cash Flows  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 59,586	\$ 28,607
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Provision for bad debts	34,442	32,978
Restricted contributions	(1,083)	(2,042)
Depreciation and amortization	12,779	11,183
Net unrealized gain on marketable investments	(51)	(629)
Gain on early extinguishment of debt	(43,622)	0
Decrease in employee benefit obligation	(11,955)	(28,349)
Changes in operating assets and liabilities:		
Decrease (increase) in assets		
Accounts receivable, net	(45,070)	(24,946)
Inventories	(854)	(382)
Prepaid expenses and other assets	2,276	(2,718)
Investments-trading	27	(598)
Other noncurrent assets	(492)	217
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(16,022)	13,403
Accrued annual leave	354	1,360
Accrued employee benefit liabilities	(664)	(1,015)
Accrued professional liabilities	(419)	585
<b>NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ (10,768)</b>	<b>\$ 27,654</b>

*(Continued)*

Consolidated Statements of Cash Flows - Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
	<u>          </u>	<u>          </u>
<b>INVESTING ACTIVITIES</b>		
Net purchase of property and equipment	\$ (10,342)	\$ (23,500)
Net sale of investments-other than trading	6,888	2,460
	<u>          </u>	<u>          </u>
<b>NET CASH AND CASH EQUIVALENTS USED IN INVESTING ACTIVITIES</b>	(3,454)	(21,040)
<b>FINANCING ACTIVITIES</b>		
Payments of long-term debt and capital lease obligations	(3,569)	(4,718)
Net change in advances from third-party payers	1,540	678
Restricted contributions	1,083	2,042
	<u>          </u>	<u>          </u>
<b>NET CASH AND CASH EQUIVALENTS USED IN FINANCING ACTIVITIES</b>	(946)	(1,998)
	<u>          </u>	<u>          </u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(15,168)	4,616
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>43,276</u>	<u>38,660</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 28,108</u>	<u>\$ 43,276</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 2,857</u>	<u>\$ 3,427</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:</b>		
Equipment acquired under capital lease	<u>\$ 0</u>	<u>\$ 2,632</u>

See notes to the consolidated financial statements

Notes to the Consolidated Financial Statements  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies**

*Organization*

Dimensions Health Corporation (the Corporation) is a not-for-profit, non-stock corporation, incorporated in Maryland for charitable and scientific purposes. The Corporation is operating under the name Dimensions Healthcare System. The principal mission of the Corporation is the provision of health care through various delivery sites and the provision of services supporting health care. The Corporation's principal facilities, subsidiaries, and affiliates are as follows:

*Acute and Ambulatory Care Facilities:*

- Prince George's Hospital Center (PGHC)
- Laurel Regional Hospital (LRH)
- Bowie Health Center (BHC)

*Long-term Care Facilities:*

- Gladys Spellman Specialty Care Unit (GSS, a division of LRH)
- Madison Manor, Inc. (MM), a wholly owned subsidiary, which holds a 25% interest in the Larkin Chase Nursing and Restorative Center

*Health Care Supporting Subsidiaries and Affiliates:*

- Dimensions Healthcare Associates, Inc. (DHA), a wholly owned, not-for-profit corporation established to provide physician services to the Corporation's acute and ambulatory care facilities
- Affiliated Enterprises, Inc. (AEI), a wholly owned, for-profit corporation, which owns and operates Mullikin Medical Center, a medical office building, on the Bowie campus
- Dimensions Assurance, Ltd. (DAL), a wholly owned, for-profit captive insurance company located in the Cayman Islands

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Basis of Presentation*

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Investments in affiliates for which the Corporation has the ability to significantly influence operations, but does not control, are accounted for under the equity method. Significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses. Actual amounts could differ from those estimates.

*Risk Factors*

The Corporation's ability to maintain and/or increase future revenues could be adversely affected by: (1) the growth of managed care organizations promoting alternative methods for health care delivery and payment of services such as discounted fee for service networks and capitated fee arrangements (the rate setting process in the State of Maryland prohibits hospitals from entering into discounted fee arrangements, however managed care contracts may provide for exclusive service arrangements); (2) proposed and/or future changes in the laws, rules, regulations, and policies relating to the definition, activities, and/or taxation of not-for-profit tax-exempt entities; (3) the enactment into law of all or any part of the current budget resolutions under consideration by Congress related to Medicare and Medicaid reimbursement methodology and/or further reductions in payments to hospitals and other health care providers; (4) the ultimate impact of the federal Patient Protection and Affordable Care Act and the Health Care Education Affordability Reconciliation Act of 2010; and (5) the future of Maryland's Certificate of Need (CON) program, where future deregulation could result in the entrance of new competitors, or future additional regulation may eliminate the Corporation's ability to expand new services.

The Joint Commission (JC), a non-governmental privately owned entity, provides accreditation status to hospitals and other health care organizations in the United States. Such accreditation is based upon the healthcare organization demonstrating compliance with approximately three hundred standards designed to ensure quality and patient safety. JC conducts unannounced triennial and for cause surveys. Certain managed care payers require hospitals to have appropriate JC accreditation in order to participate in those programs.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Risk Factors - Continued*

In addition, the Center for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides “deemed status” for facilities having JC accreditation. By being accredited, facilities are “deemed” to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare or Medicaid provider or exclusion from any or all of these programs/payers would have a materially negative impact on the future financial position, operating results and cash flows of the Corporation. The health care facilities of the Corporation have maintained full JC accreditation for 2014 and 2013.

*Cash, Cash Equivalents and Short-Term Investments*

Cash and cash equivalents include cash and certain investments in highly liquid debt instruments and certificates of deposit, both with original maturities of three months or less when purchased. The Corporation routinely invests its surplus operating funds in overnight repurchase agreements. These funds generally invest in highly liquid U.S. government and agency obligations. Short-term investments are highly liquid assets that have an original maturity between three months and one year. Short term investments represents amounts held by commercial banks under custody agreements as collateral for outstanding letters of credit. Cash holdings in commercial banks routinely exceed the aggregate maximum insured (\$250) by the Federal Deposit Insurance Corporation.

*Marketable Investments and Investment Income*

Marketable investments are carried at fair value as of the balance sheet date based on quoted market prices. Investments included in assets limited as to use are restricted under debt and bank agreements and self-insurance arrangements, and are not available for the general operations of the Corporation. Assets limited as to use, which will be utilized to meet related current liabilities, have been classified in the accompanying consolidated balance sheets as current assets. The cost of securities sold is based on the specific-identification method. Investment income for all investments is included in consolidated non-operating income.

Management classifies the Corporation’s investment portfolio restricted for self-insurance arrangements as a trading portfolio. Accordingly, realized and unrealized gains and losses on these investments are included in non-operating gains (losses) in the accompanying consolidated statements of changes in net assets (deficit). Management classifies the investments restricted under debt and bank agreements as an other-than-trading portfolio, and these investments consist primarily of money market funds. Accordingly, unrealized gains and losses are recorded as changes in unrestricted net assets (deficit), which is excluded from the excess of revenues and gains over expenses and losses within the consolidated statements of changes in net assets (deficit).

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Marketable Investments and Investment Income - Continued*

The Corporation's investments are subject to credit, market and interest rate risks that cannot be predicted at this time. However, management has attempted to mitigate these risks by maintaining a diversified portfolio.

*Accounts Receivable and Contractual Allowances*

The Corporation provides services to patients in Prince George's County and surrounding jurisdictions, the majority of whom are covered by third-party health insurance programs. The Corporation bills the insurers/programs directly for the services provided. Insurance and credit information is obtained from patients at time of service or upon admission when available. No collateral is obtained for patient accounts receivable.

The Corporation's policy is to write off all patient accounts that have been identified as uncollectible. Accounts receivable are reduced by an allowance for doubtful accounts. An allowance for doubtful accounts is recorded for accounts not yet written off that are anticipated to become uncollectible in future periods. In evaluating the collectibility of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payers of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payers of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For accounts receivable associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For accounts receivable associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies – Continued**

*Accounts Receivable and Contractual Allowances- Continued*

Discounts ranging from 2% to 6% of hospital charges are given to Medicare, Medicaid and certain approved commercial health insurance and health maintenance organizations. Also, these payers routinely review patient billings and deny payment for certain procedures that they deem medically unnecessary or performed without appropriate pre-authorization. Discounts and denials are recorded as reductions of net patient revenue. Accounts receivable from these third-party payers have been adjusted to reflect the difference between charges and the estimated reimbursable amounts.

At June 30, 2014 and 2013, gross patient accounts receivable, by payer class, consisted of the following:

	<u>2014</u>	<u>2013</u>
Medicare	15%	15%
Medicaid	20%	17%
Medicaid MCO	18%	12%
Medicaid pending	5%	8%
Commercial	5%	6%
Self pay and others	37%	42%
	<u>100.0%</u>	<u>100%</u>

*Inventories*

Inventories, consisting principally of drugs and supplies, are carried at the lower of cost or market, using the average-cost method.

*Meaningful Use Incentives*

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians and certain other professionals when they adopt, implement or upgrade certified electronic health record (EHR) technology or become “meaningful users,” as defined under ARRA, of EHR technology in ways that demonstrate improved quality, safety and effectiveness of care. Incentive payments will be paid out over varying transitional schedules depending on the type of incentive (Medicare and Medicaid) and recipient (hospital or eligible provider). Eligible hospitals can attest for both Medicare and Medicaid incentives, while physicians must select to attest for either Medicare or Medicaid incentives. For Medicare incentives, eligible hospitals receive payments over four years while eligible physicians receive payments over five years. For Medicaid incentives, eligible hospitals receive payments based on the relevant State adopted payment structure and physicians receive payments over six years.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies – Continued**

*Meaningful Use Incentives - Continued*

The Corporation recognizes EHR incentives when it is reasonably assured that the Corporation will successfully demonstrate compliance with the meaningful use criteria. During the year ended June 30, 2014 and 2013, certain hospitals and physicians of the Corporation satisfied the meaningful use criteria. As a result, the Corporation recognized \$4,257 and \$2,276 of EHR incentives during fiscal year 2014 and 2013, respectively, in other operating revenue.

*Property and Equipment*

Property and equipment is carried at cost or, if donated, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset, ranging from two to thirty years. Amortization of assets under capital lease obligations is computed using the straight-line method over the estimated useful life of the equipment and is included in depreciation and amortization in the consolidated financial statements. Maintenance and repairs are charged to expense as incurred.

The cost of software is capitalized provided the cost of the project is at least \$0.75 (seven hundred fifty dollars) and the expected life is at least two years. Costs include payment to vendors for the purchase and assistance in its installation, payroll costs of employees directly involved in the software installation, and interest costs of the software project if financed by debt. Preliminary costs to document system requirements, vendor selection, and any costs before software purchase are expensed. Capitalization of costs will generally end when the project is completed and the software is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

*Deferred Financing Costs*

Financing costs incurred in issuing the Prince George's County, Maryland Project and Refunding Revenue Bonds (Dimensions Health Corporation Issue), Series 1994, had been capitalized and amortized over the life of the issues using the bonds-outstanding method. During 2014, these bonds were extinguished, see *Note E*.

The following table summarizes deferred financing costs:

	June 30	
	2014	2013
Series 1994 revenue bonds	\$ 0	\$ 891
Other	131	138
	<u>131</u>	<u>1,029</u>
Less: accumulated amortization	57	767
	<u>\$ 74</u>	<u>\$ 262</u>



Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Impairment of Long-Lived Assets*

The Corporation evaluates its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the future discounted cash flows compared to the carrying amount of the asset.

*Temporarily Restricted Net Assets*

Resources restricted by donors for specific purposes are reported as temporarily restricted net assets until expended, at which time they are reported as net assets released from restriction.

In accordance with accounting principles generally accepted in the United States of America, assets that are restricted for capital acquisitions (or that will not be available to the Corporation within the next operating cycle) are classified as noncurrent assets in the accompanying consolidated balance sheets. Assets that are temporarily restricted for supporting Corporation programs are classified as current assets if they are currently available for use by the Corporation. Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2014</u>	<u>2013</u>
Capital purchases (state funded)	\$ 0	\$ 653
Healthcare	2,028	1,798
Health education	2,112	1,738
	<u>\$ 4,140</u>	<u>\$ 4,189</u>

*Net Patient Service Revenue*

Net patient service revenue, by payer class, consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Medicare	28.4%	29.5%
Medicaid	33.4%	29.1%
Commercial	27.6%	30.3%
Other	10.6%	11.1%
	<u>100.0%</u>	<u>100.0%</u>

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Net Patient Service Revenue - Continued*

Revenue from the State of Maryland Medicaid program is primarily derived from independent managed care organizations that have contracted with the State of Maryland to cover eligible beneficiaries.

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts recognized in the period from these major payer sources, is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 459,445	\$ 443,325
Revenue deductions:		
Charity care	21,381	28,787
Medicare and medicaid allowances	15,223	14,809
Other discounts and allowances	46,538	39,598
	<u>376,303</u>	<u>360,131</u>
Less: provision for bad debts	<u>(34,442)</u>	<u>(32,978)</u>
Net patient service revenue	<u>\$ 341,861</u>	<u>\$ 327,153</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the financial statements. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Charity Care*

In support of its mission, the Corporation provides charity care to patients who lack financial resources and are deemed to be medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue.

In addition, the Corporation provides services to other medically indigent patients under various state Medicaid programs that pay providers amounts less than the costs incurred for the services provided to the recipients.

Under current accounting standards, the Corporation is required to report the cost of providing charity care. The cost of charity care provided by the Corporation totaled \$15,789 and \$19,811 for the years ended June 30, 2014 and 2013, respectively. Rates charged by the Corporation for regulated services are determined based on an assessment of direct and indirect cost calculated pursuant to the methodology established by the Maryland Health Services Cost Review Commission ("the Commission" - see *Note J*. For any charity services rendered by the Corporation other than from the Hospitals, the cost of charity care is calculated by applying the estimated total cost-to-charge ratio for the non-Hospital services to the total amount of charges for services provided to patients benefitting from the charity care policies of the Corporation's non-Hospital affiliates.

The Corporation receives a payment from the Commission with respect to an Uncompensated Care Fund ("UCC") established for rate-regulated hospitals in Maryland. The UCC is intended to provide Maryland hospitals with funds to support the provision of uncompensated care (including both charity and bad debts) at those hospitals. The Corporation received \$23,785 for 2014 and \$21,978 for 2013 in UCC payments. The cost of charity care disclosed in the prior paragraph is not reported net of the uncompensated care fund receipts.

*Other Operating Income*

Other income is primarily composed of private and government restricted and non-restricted donations and grant income. Restricted donations and grants are held as restricted assets and recorded as revenue once the restrictions are satisfied. Other operating income is also composed of miscellaneous hospital revenue such as rental income, parking garage and vending machine income.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Estimated Professional Liability Costs*

The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation utilizes outside actuarial services in determining the aggregate professional liability reserve. The accrued professional liabilities amounts included in the accompanying consolidated balance sheets have not been discounted (see *Note G*).

*Excess of Unrestricted Revenue and Other Support over Expenses*

The consolidated statements of operations report excess of unrestricted revenue and other support over expenses. Changes in unrestricted net assets (deficit) that are excluded from this performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of (and assets released from donor restrictions related to) long-lived assets, and the recognition of (and subsequent adjustment to) certain changes in the employee post-retirement benefit liability reported by the Corporation.

*Income Tax*

The Corporation is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code as a public charity. Federal tax law requires that the Corporation be operated in a manner consistent with its initial exemption application in order to maintain its exempt status. Management has analyzed the operations of the Corporation and concluded that it remains in compliance with the requirements for exemption. The state in which the Corporation operates also recognizes this exemption for state income tax purposes.

Organizations otherwise exempt from federal and state income taxation are nonetheless subject to taxation at corporate tax rates at both the federal and state levels on their unrelated business income. Exemption from other state taxes, such as real and personal property tax, is separately determined. For 2014 and 2013, management has determined that it did not have any income tax liability.

Although exempt from federal and state income taxes, the Corporation is required to file an annual federal information return on Form 990. In addition, to the extent that the Corporation has gross income from business activities unrelated to its exempt purpose in excess of \$1,000 for any tax year, it must also file a Form 990-T tax return. Generally, federal and state taxing authorities must propose any taxable adjustments within three years from the due date of the 990-T or the actual filing date, whichever is later, unless unrelated business gross income is under reported by 25% or more, in which case the relevant time period is six years. No statute of limitations applies for years for which no 990-T has been filed. The Corporation is not currently under audit by any taxing authority and has not been notified of any impending audit.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note A - Organization and Summary of Significant Accounting Policies - Continued**

*Income Tax – Continued*

Current accounting standards define the threshold for recognizing uncertain income tax return positions in the financial statements as “more likely than not” that the position is sustainable, based on its technical merits, and also provide guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Management believes there is no impact on the Corporation’s accompanying consolidated financial statements related to uncertain income tax positions.

*Fair Value of Financial Instruments*

The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, advances from third-party payers, and accrued annual leave approximates their fair value. The fair values of assets limited as to use and investments are based on quoted market prices of the individual securities or investments. The fair value of the Corporation's fixed-rate debt is based on current traded values. The fair value of the variable-rate debt is discussed in *Note E*. The fair values of investments are discussed in *Note C*.

**Note B - Management's Update on Plans for UMMS Affiliation and the New Regional Medical Center**

The Corporation has experienced substantial capital needs, significant unfunded pension obligations and limited cash resources. The Corporation continues to be reliant upon government and other grant funding to finance continuing operations.

The following one-time operating grants were recorded in other income in the accompanying consolidated statements of operations and changes in net assets as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Prince George's County Government	\$ 15,000	\$ 15,000
State of Maryland	15,000	15,000
Magruder Memorial Hospital Trust	<u>1,042</u>	<u>1,042</u>
	<u>\$ 31,042</u>	<u>\$ 31,042</u>

Should the government and private grant funding, most of which was reported as income in the financial records of PGHC, LRH and GSSHNC, not have been received by the Corporation, the consolidated income from operations of the Corporation for the years ended June 30, 2014 and 2013 would have resulted in deficits of \$29,356 and \$34,527, respectively. The Corporation’s cash flow continues to be stressed due primarily to the need to fund pre-existing obligations such as the Corporation's pension and other postretirement employee benefits (over \$10,045 and \$13,698

## Notes to the Consolidated Financial Statements- Continued

### **Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

#### **Note B - Management's Update on Plans for UMMS Affiliation and the new Regional Medical Center - Continued**

contributed during the years ended June 30, 2014 and 2013, respectively), as well as funding for new property and equipment (over \$9,756 and \$23,500 for the years ended June 30, 2014 and 2013, respectively). Consolidated days unrestricted cash available to fund operations was approximately twenty-four days as of June 30, 2014 and forty-one days as of June 30, 2013.

Management and the Board of Directors are addressing these issues to ensure the Corporation's continued financial stability as described below.

On July 21, 2011, the Prince George's County of Maryland (the County), the University of Maryland Medical System (UMMS), the University System of Maryland (USM), the State of Maryland (the State) and the Corporation signed a Memorandum of Understanding (MOU) to forge a long term solution to the historical challenges related to the Prince George's County health care system facilities and assets currently leased to the Corporation (the System) by developing and implementing a strategy to transform the System into an efficient, effective and financially viable healthcare delivery system with a new regional medical center, located in Prince George's County, supported by a comprehensive ambulatory care network, which will improve the health of residents of the County and Southern Maryland region by providing community-based access to high quality, cost-effective medical care.

UMMS has completed an initial study of the System and the health care needs of the County. The strategy includes the potential development of a University of Maryland Baltimore health sciences presence to accompany the regional medical center and the ambulatory care network in the mission to enhance the provision of quality health care services to the residents of the County and Southern Maryland. The initial study estimates the overall costs necessary to implement the vision and strategy to be in the range of \$600 million, excluding the cost of implementing the comprehensive ambulatory system. Further, the study identified the additional need to resolve approximately \$200 million of the Corporation's unfunded pension liabilities; outstanding debt and unfunded retiree health benefit costs. The costs for the project will be shared by the key stakeholders.

Plans for the project, as outlined in the MOU, are on track. The University of Maryland College Park School of Public Health completed a study and assessment of the public health impact on the population to be served. The findings were presented to the key stakeholders and were also made public.

External consultants have assisted management and the stakeholders with refining financial analyses to determine the appropriate cost and size of the new Regional Medical Center (RMC). State and County funding is already in place and the Largo Town Center was selected as the site for the new hospital. On October 4, 2013, a CON application was filed with the State for new RMC.

## Notes to the Consolidated Financial Statements- Continued

### **Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

#### **Note B - Management's Update on Plans for UMMS Affiliation and the new Region Medical Center - Continued**

If the other plans that are outlined in the MOU are executed as envisioned, a new hospital in the County, along with a new USM health sciences campus and a primary care outpatient network, could be operational in the next four to seven years. A copy of the MOU can be found on the County's website.

As part of the MOU, on October 20, 2011, Governor Martin O'Malley on behalf of the State, and County Executive Rushern L. Baker, III on behalf of the County, signed a letter of intent to demonstrate their commitment to provide the System with thirty million dollars (\$30,000) in funding (\$15,000 each) for fiscal year 2012. This funding was used both to support the System's operations and also for the continued discharging of its legacy liabilities. During fiscal year 2014 and 2013, the State and County also each provided \$15,000 to the Corporation. The State has committed to continue providing additional amounts of \$15,000 each for fiscal years 2015 through 2017. For fiscal year 2015, the County has committed to providing additional amounts of \$9,800. From fiscal year 2016 and 2017, the County's contribution will be approximately \$10,000 per year. These amounts are to cover any continued operating losses and liabilities and are subject to State and County's respective appropriations processes. As of September 9, 2014, the Corporation had received the scheduled County funding of the initial installments for the operations of the Corporation's first fiscal quarter totaling \$2.5 million.

The MOU also requires full discharge of the Corporations legacy liabilities, namely its unfunded pension balance and its 1994 bond debt, prior to an affiliation with UMMS. Towards this end, the County assumed the Corporation's outstanding Series 1994 Bond debt (see *Note E*). The County reissued new debt in the form of certificates of participation from which the proceeds was used to advance refund the Corporation's Series 1994 Bond debt. Beginning fiscal year 2015, the County will offset an amount equal to required debt service on the new certificates of participation from its annual grant to the Corporation.

The successful completion of these strategic initiatives is contingent upon the continued support and cooperation of the County, the State, and UMMS.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note C - Investments**

Marketable investments are included in the consolidated balance sheets as assets limited as to use at June 30, 2014 and 2013, respectively.

The fair values of marketable investments at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 8,375	\$ 11,133
Certificate of deposits	2,941	2,986
Government and agency	20,031	26,662
Corporate bonds	4,774	6,439
Common stock	8,178	9,028
Asset-backed securities	573	906
Other	0	601
Total marketable investments	<u>44,872</u>	<u>57,755</u>
Less amount needed for current debt service	<u>0</u>	<u>4,721</u>
Long-term investments	<u>\$ 44,872</u>	<u>\$ 53,034</u>

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Interest, dividends and realized gains	\$ 2,383	\$ 2,241
Unrealized gains on trading portfolio	51	16
	<u>2,434</u>	<u>2,257</u>
Unrealized gains on other-than-trading portfolio	0	3
	<u>\$ 2,434</u>	<u>\$ 2,260</u>

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.



Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note C – Investments – Continued**

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Corporation's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values of government and agency securities, corporate bonds, common stock and asset-backed securities have been determined by the Corporation from observable market quotations, when available. Money market funds comprise short-term fixed maturity securities, and carrying amounts approximate fair values, which have been determined from public quotations when available.

Notes to the Consolidated Financial Statements- Continued

**Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

**Note C – Investments - Continued**

The following table presents the Corporation’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2014.

	Level 1	Level 2	Total
Money market funds	\$ 0	\$ 8,375	\$ 8,375
Certificate of deposits	0	2,941	2,941
Government and agency			
Treasury notes	18,305	0	18,305
Mortgage asset	0	115	115
Federal home agency asset	0	1,726	1,726
Nonconvertible corporate bonds	0	4,774	4,774
Common stock			
Basic materials	923	0	923
Conglomerates	177	0	177
Consumer goods	205	0	205
Financial	1,091	0	1,091
Healthcare	1,579	0	1,579
Industrial goods	639	0	639
Services	1,496	0	1,496
Technology	1,719	0	1,719
Utilities	349	0	349
Mortgage asset-backed securities	0	458	458
<b>Total</b>	<u>\$ 26,483</u>	<u>\$ 18,389</u>	<u>\$ 44,872</u>

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note C – Investments - Continued**

The following table presents the Corporation’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of June 30, 2013.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 0	\$ 11,133	\$ 11,133
Certificate of deposits	0	2,986	2,986
Government and agency			
Treasury notes	24,101	0	24,101
Mortgage asset	0	165	165
Federal home agency asset	0	2,396	2,396
Other - private placement	0	601	601
Nonconvertible corporate bonds	0	6,439	6,439
Common stock			
Basic materials	1,214	0	1,214
Conglomerates	109	0	109
Consumer goods	378	0	378
Financial	1,289	0	1,289
Healthcare	1,630	0	1,630
Industrial goods	987	0	987
Services	1,764	0	1,764
Technology	1,439	0	1,439
Utilities	218	0	218
Mortgage asset-backed securities	0	906	906
<b>Total</b>	<u>\$ 33,129</u>	<u>\$ 24,626</u>	<u>\$ 57,755</u>

No significant transfers were made between financial instruments classified at different levels during 2014 and 2013.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note D - Property and Equipment**

A summary of property and equipment at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 743	\$ 743
Land improvements	532	532
Buildings and improvements	71,571	70,634
Leasehold improvements	36,400	36,370
Equipment	160,137	153,108
Equipment under capital lease obligation	9,224	9,718
	<u>278,607</u>	<u>271,105</u>
Construction in progress	3,450	619
	<u>282,057</u>	<u>271,724</u>
Less: accumulated depreciation and amortization	215,233	202,463
	<u>\$ 66,824</u>	<u>\$ 69,261</u>

Accumulated amortization for equipment under capital leases was \$6,820 and \$5,264 at June 30, 2014 and 2013, respectively. The Corporation recognized amortization expense for assets under capital lease obligations of \$1,484 and \$1,432 for the periods ended June 30, 2014 and 2013, respectively. These amounts are included in depreciation and amortization expense within the accompanying consolidated statements of operations and changes in net assets (deficit).

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note E - Long-Term Debt**

Long-term debt and capital lease obligations at June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Series 1994 Bonds:		
5.38%-Term bonds with periodic sinking fund payments due July 1, 2014	\$ 0	\$ 6,775
5.30%-Term bonds with periodic sinking fund payments due July 1, 2024	0	46,710
Magruder Trust Mortgage - liability held for sale, three-year adjustable rate (3.25% at both June 30, 2013 and 2012), repayable in periodic installments through 2025	2,806	3,004
Capital lease obligations, payable in monthly installments collateralized, with interest ranging from 1.99% to 5.98% by leased equipment	3,058	4,270
	<u>5,864</u>	<u>60,759</u>
Less: original issue discount of 1994 Bonds	<u>0</u>	<u>850</u>
	5,864	59,909
Less: current portion of long-term debt and capital lease obligations	<u>1,424</u>	<u>5,016</u>
Non-current portion	<u>\$ 4,440</u>	<u>\$ 54,893</u>

Interest costs on long-term debt and notes payable incurred and paid for the years ended June 30, 2014 and 2013 was \$1,437 and \$3,343, respectively.

The assets held in trust under the Series 1994 Bonds as of June 30, 2014 and 2013 are as follows:

	<b>June 30</b>	
	<u>2014</u>	<u>2013</u>
Debt-service reserve fund	\$ 0	\$ 6,594
Debt-service fund	0	4,721
	<u>\$ 0</u>	<u>\$ 11,315</u>

In October 2013, the County assumed the Corporation's outstanding Series 1994 Bonds. The County reissued new debt in the form of certificates of participation from which the proceeds was used to advance refund the Corporation's Series 1994 Bonds. The Corporation recognized a gain from extinguishment of this debt of \$43,622.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note E - Long-Term Debt - Continued**

Scheduled principal repayments on long-term debt are as follows as of June 30, 2014:

Year ending:		
2015	\$	239
2016		211
2017		218
2018		226
2019		233
2020 and thereafter		<u>1,720</u>
	\$	<u><u>2,847</u></u>

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, are as follows as of June 30, 2014:

Year ending:		
2015	\$	1,312
2016		1,097
2017		665
2018		166
2019		0
2020 and thereafter		<u>0</u>
Total minimum lease payments		3,240
Less amounts representing interest		<u>(223)</u>
Present value of net minimum lease payments	\$	<u><u>3,017</u></u>

The fair value of the Corporation's Series 1994 Bond indentures, based on the quoted market prices at June 30, 2014 and 2013, was \$0 and \$49,936, respectively. The fair value of all other outstanding debt approximates its carrying value.

## Notes to the Consolidated Financial Statements- Continued

### **Dimensions Health Corporation and Subsidiaries**

(Dollars in thousands)

#### **Note F - Functional Expenses**

The Corporation considers health care services and management and general to be its primary functional categories for purposes of expense classification. The Corporation's operating expenses by functional classification for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 348,759	\$ 338,010
Management and general	32,416	31,417
	<u>\$ 381,175</u>	<u>\$ 369,427</u>

#### **Note G - Insurance Programs**

The Corporation maintains a wholly owned captive insurance company to provide professional and other liability insurance to its institutions and employees. As of June 30, 2014 and 2013, the limits were \$5,000 per occurrence for professional liability and \$3,000 per occurrence for general liability. Physicians employed by the Corporation are insured for professional liability with coverage limits of \$1,000 and \$3,000 in the annual aggregate. The Corporation also runs several lines of casualty insurance. Some of the lines of insurance are commercially reinsured. In calendar years 2014 and 2013, the captive insurance company provided reimbursement coverage to the Corporation for liability exposures. Amounts above retention for professional, general and casualty lines are 100% reinsured through other commercial insurance companies. The Corporation incurred professional liability expenses of approximately \$15,097 and \$13,607 for the years ended June 30, 2014 and 2013, respectively.

The Corporation provides claims-management services to the captive insurance company. Losses from claims, both asserted and unasserted such as potentially compensable events identified under the Corporation's incident reporting system, are accrued based on actuarial estimates that incorporate the Corporation's past experience, as well as other considerations. These include the nature of each claim or incident and various relevant trend factors. An additional amount is accrued for potential incurred but not reported claims. The estimates for these losses are reported as accrued professional liabilities on the consolidated balance sheets.

In management's opinion, the assets of the captive insurance company are sufficient to meet its obligations as of June 30, 2014. If the financial condition of the captive insurance company were to materially deteriorate in the future, and if it was unable to pay its claim obligations, the responsibility to pay those claims would revert to the Corporation.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits**

The Corporation has a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. For employees not covered under collective-bargaining agreements and employees who are represented by the 1199 SEIU Health Care Workers East - Health Care Workers union (formerly District 1199E-DC, SEIU union and formerly Local No. 63 union), the Plan operates as a cash balance plan. The annual contribution by the Corporation is allocated to individual employee accounts based on years of service and the individual's retirement account. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union (formerly Professional Staff Nurses Association union), benefits are based on years of service and average final compensation. On December 31, 2007, the Corporation elected to freeze the Pension Plan. No further benefit accruals will be made to the Plan. The Plan freeze substantially reduces annual funding obligations beginning with Plan year 2008.

The Corporation's funding policy is to contribute such actuarially determined amounts as necessary to provide assets sufficient to meet the benefits to be paid to the Plan participants and to meet the funding requirements of the Employees Retirement Income Security Act of 1974 (ERISA).

*Postretirement Benefit Plans*

The Corporation also sponsors two defined postretirement benefit plans that cover both salaried and non-salaried employees. One plan provides health care (medical, dental and vision) benefits and the other provides life insurance benefits. The postretirement health care plan is provided to employees who have retired and certain other employees who were eligible to retire prior to July 1, 1995. The plan is contributory for those who retired prior to July 1, 1995, with retiree contributions adjusted annually. Employees who retired on July 1, 1995 and later are eligible to participate in the plan by paying 100% of the premiums without corporate contributions. The Corporation's policy has been to fund this plan on an as needed basis.

The second defined postretirement plan is a life insurance plan covering both salaried and non-salaried employees. The plan was non-contributory for all eligible retirees prior to July 1, 2001. For employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union, the plan was no longer offered to new retirees as of July 1, 1999. Effective July 1, 2001, the plan was modified to become contributory for the non-union employees and employees represented by the 1199 SEIU Health Care Workers East - Health Care Workers union who retired prior to July 1, 2001 and for the employees represented by the 1199 SEIU Health Care Workers East – Registered Nurses Chapter union who retired prior to July 1, 1999. The Corporation's policy has been to fund its share of these benefits as they are incurred.



Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits - Continued**

*Defined Contribution 403(b) Plan*

On January 1, 2008 a defined contribution 403(b) plan, the Dimensions Health Corporation Retirement Savings Plan, was adopted as a replacement plan for the frozen pension plan. Previously the employer had a non-contributory deferred savings program offered to employees through multiple third party administrators.

The 403(b) plan provides a 2% employer contribution on gross wages. Eligible employees who defer wages into the program receive matching contributions from the Corporation equal to 50% of their contribution, up to 4% of their gross pay (thereby receiving an employer maximum match of 2%). Employees who are budgeted to work 40 hours per pay period receive their contribution and match on a biweekly basis. Employees who are budgeted less than 40 hours per pay period but who actually work 1,000 or more hours in the plan year receive their contribution and match in one payment early in the following year. The 403(b) plan has a three year “cliff” vesting schedule. Employer contributions under this plan totaled approximately \$4,919 and \$4,952 for the years ended June 30, 2014 and 2013, respectively.

In accordance with the collective bargaining agreement with 1199 SEIU Health Care Workers East – Registered Nurses Chapter, represented employees with fifteen years of service will receive a matching \$25 for each pay period in which they defer \$25 or more. This matching contribution is paid quarterly.

As the 403(b) plan results in a decrease in retirement benefits for older employees, “grandfathering” provisions were put in place. Non-represented employees, who, as of January 1, 2008, are both fifty-five years or older and who have at least one year of vesting service, receive an additional 3% contribution from the Corporation. Employees represented by 1199 SEIU Health Care Workers East – Registered Nurses Chapter and who, as of January 1, 2008 are both fifty-five years or older and who have fifteen years of vesting service receive an additional 6.5% contribution from the Corporation. To be eligible for the supplemental grandfathering contributions, employees must continue to work in positions budgeted for at least forty hours per pay period.

On April 8, 2008 the Corporation filed a “de minimis” determination ruling request, exempting the Corporation from Section 412(f) of the IRS Code and 304(b) of ERISA on April 8, 2008, due to the establishment of the defined contribution 403(b) plan. As of the date of this report, the Corporation has not received disposition on the request.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits - Continued**

*Recorded Liability*

The Corporation has recorded a pension liability in the accompanying consolidated balance sheets in the amount of \$59,018 and \$70,922, representing the amount of projected benefit obligation exceeding the fair value of the Plan's assets as of June 30, 2014 and 2013, respectively. The accumulated benefit obligation was \$249,762 and \$235,335 as of June 30, 2014 and 2013, respectively.

The Corporation has also recorded a post retirement benefit liability in the accompanying consolidated balance sheet in the amount of \$4,369 and \$5,084 as of June 30, 2014 and 2013, respectively, representing the underfunded status of the other postretirement benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 235,335	\$ 242,269	\$ 5,084	\$ 5,322
Interest cost	11,068	10,238	203	219
Actuarial (gain) loss	11,520	(9,956)	(413)	186
Benefits paid	(8,161)	(7,216)	(505)	(643)
Benefit obligation at end of year	<u>\$ 249,762</u>	<u>\$ 235,335</u>	<u>\$ 4,369</u>	<u>\$ 5,084</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 164,413	\$ 142,221	\$ 0	\$ 0
Actual return on plan assets	24,952	16,353	0	0
Employer contribution	9,540	13,055	505	643
Benefits paid	(8,161)	(7,216)	(505)	(643)
Fair value of plan assets at end of year	<u>\$ 190,744</u>	<u>\$ 164,413</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Funded status/accrued pension and other postretirement benefit cost</b>				
	<u>\$ (59,018)</u>	<u>\$ (70,922)</u>	<u>\$ (4,369)</u>	<u>\$ (5,084)</u>

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Recorded Liability - Continued*

Significant assumptions used in the accounting for the benefit plans on the measurement dates are as follows. For measurement purposes, certain rate assumptions are adjusted based upon periodic changes in market indicators.

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Weighted-average assumptions</b>				
Discount rate	4.35%	4.80%	4.35%	4.80%
Expected return on plan assets	7.5%	7.5%	N/A	N/A
Health care trend rate	N/A	N/A	7.9%	8.2%
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 0	\$ 0	\$ 0	\$ 0
Interest cost	11,068	10,238	203	219
Expected return on plan assets	(12,506)	(11,540)	0	0
Amortization of prior service cost	150	150	(135)	(135)
Amortization of net actuarial loss	10,297	13,782	54	97
Amortization of transition obligation	0	0	250	252
Net periodic benefit cost	<u>\$ 9,009</u>	<u>\$ 12,630</u>	<u>\$ 372</u>	<u>\$ 433</u>

The overall rate of expected return on assets assumption was based on historical returns, with adjustments made to reflect expectations of future returns. The extent to which the future expectations were recognized included the target rates of return for the future which has historically not changed.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Recorded Liability - Continued*

For measurement purposes related to postretirement benefits as of June 30, 2014 and 2013, a 4.5% annual rate of increase in the per capita cost of covered health care benefits was assumed. The health care trend rate assumption has a significant effect on the amounts reported. For example, changing the assumed health care cost trend rates by one percentage point will have the following effects:

	<u>One Percentage- Point Increase</u>	<u>One Percentage- Point Decrease</u>
Effect on service and interest cost component	\$ 10	\$ (9)
Effect on postretirement benefit obligation	236	(211)

*Pension Plan Assets*

The Plan's asset allocations at June 30, 2014 and 2013, by asset category, are as follows:

<b>Asset Category</b>	<u>2014</u>	<u>2013</u>
Equity securities	52%	52%
Fixed maturity securities	26%	27%
Other	22%	21%
	<u>100%</u>	<u>100%</u>

The Plan assets may be invested in publicly traded equity mutual funds, including equity index funds and unit investment trusts mirroring a major market equity index, and publicly traded bond mutual funds, including bond index funds, with allowable ranges of 50% to 80% of the total asset value for equities and 20% to 50% of the total asset value for fixed maturity investments. In addition, fixed maturity investments that are not publicly traded may be used with specific approval by the Plan trustees. Investment results are evaluated against applicable major market indexes.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Pension Plan Assets - Continued*

The custodian of the Plan's assets uses an independent pricing service, Interactive Data Pricing and Reference Data, Inc., to provide pricing services and valuation methodology. The following is a description of the valuation methodologies used for assets measured at fair value.

Common stock securities are priced at the closing price reported on the active market on which individual securities are traded.

Corporate bond securities are priced by independent pricing services using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads, and priced using non-binding broker/dealer quotes. Prices are reviewed by the custodian to ensure reasonableness, and can be challenged with the independent party and/or overridden if the custodian believes the custodian's price would be more reflective of fair value.

U.S. government securities are priced using inputs such as benchmark yields, reported trades, broker/dealer quotes, and issuer spreads, priced using non-binding broker/dealer quotes. Prices are reviewed by the custodian to ensure reasonableness, and can be challenged with the independent party and/or overridden if the custodian believes the custodian's price would be more reflective of fair value.

The valuation of asset-backed securities (including partnerships) is based on valuation by the general manager or partner of such asset determined in good faith using criteria set forth in the asset agreements.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Pension Plan Assets - Continued*

The fair values of the Plan assets as of June 30, 2014 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents</b>				
Cash and money market funds	\$ 8,548	\$ 0	\$ 0	\$ 8,548
<b>Fixed Maturity</b>				
US government agency bonds/notes	4,749	0	0	4,749
US government bonds/notes	13,218	0	0	13,218
Municipal bonds	0	745	0	745
Corporate bonds	0	10,421	0	10,421
Asset backed securities	0	708	0	708
<b>Equity</b>				
<i>Mutual funds</i>				
Large cap growth	23,627	0	0	23,627
Mid cap growth	9,552	0	0	9,552
Mid cap value	9,843	0	0	9,843
Foreign large value	18,543	0	0	18,543
Foreign large growth	16,705	0	0	16,705
Inflation-protected bond	3,844	0	0	3,844
Alternative strategies	13,599	0	0	13,599
<i>Common stocks</i>				
Energy	4,937	0	0	4,937
Materials	3,197	0	0	3,197
Industrials	3,475	0	0	3,475
Consumer discretionary	3,635	0	0	3,635
Consumer staples	2,639	0	0	2,639
Healthcare	2,576	0	0	2,576
Financials	6,187	0	0	6,187
Information technology	6,062	0	0	6,062
Telecom services	161	0	0	161
Utilities	373	0	0	373
Foreign	0	1,689	0	1,689
Other	0	196	0	196
<b>Alternatives</b>				
Multi-strategy hedge fund of funds	0	0	21,515	21,515
<b>Total assets fair value</b>	\$ 155,470	\$ 13,759	\$ 21,515	\$ 190,744

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Pension Plan Assets - Continued*

The fair values of the Plan assets as of June 30, 2013 by asset category are as follows:

Assets	Level 1	Level 2	Level 3	Total
<b>Cash and cash equivalents</b>				
Cash and money market funds	\$ 9,763	\$ 0	\$ 0	\$ 9,763
<b>Fixed Maturity</b>				
US government agency bonds/notes	11,599	0	0	11,599
US government bonds/notes	0	3,819	0	3,819
Municipal bonds	0	341	0	341
Corporate bonds	0	7,248	0	7,248
Asset backed securities	0	478	0	478
<b>Equity</b>				
<i>Mutual funds</i>				
Large cap growth	9,601	0	0	9,601
Mid cap value	8,051	0	0	8,051
Foreign large value	15,500	0	0	15,500
Foreign large growth	14,950	0	0	14,950
Inflation-protected bond	2,489	0	0	2,489
Alternative strategies	9,965	0	0	9,965
<i>Common stocks</i>				
Energy	5,112	0	0	5,112
Materials	3,421	0	0	3,421
Industrials	4,561	0	0	4,561
Consumer discretionary	5,840	0	0	5,840
Consumer staples	5,531	0	0	5,531
Healthcare	5,654	0	0	5,654
Financials	5,980	0	0	5,980
Information technology	8,566	0	0	8,566
Telecom services	942	0	0	942
Utilities	138	0	0	138
Foreign	0	4,045	0	4,045
<i>Preferred stock</i>	0	123	0	123
<b>Alternatives</b>				
Multi-strategy hedge fund of funds	0	0	20,696	20,696
<b>Total assets fair value</b>	\$ 127,663	\$ 16,054	\$ 20,696	\$ 164,413

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits - Continued**

*Pension Plan Assets - Continued*

The following table is a rollforward of the fair value amounts for financial instruments classified by the Plan within level 3 of the valuation hierarchy above:

Fair value June 30, 2012	\$	19,249
Sales		(893)
Purchases		45
Realized gains		28
Unrealized gains		2,267
Fair value June 30, 2013	\$	20,696
Sales		(1,630)
Purchases		465
Realized gains		4
Unrealized gains		1,980
Fair value June 30, 2014	\$	21,515

During fiscal years 2014 and 2013, no significant transfers were made between financial instruments classified at different levels.

The Plan holds alternative investments that are not traded on national exchanges or over-the-counter markets. The Plan is provided information on a net asset value per share basis for these investments that have been calculated by the funds of funds' managers based on information provided by the managers of underlying funds. Included in alternative investments are two classes of hedge funds of funds with fair values of \$19,115 (Grosvenor funds) and \$2,400 (Silver Creek funds) as of June 30, 2014 and \$17,362 (Grosvenor funds) and \$3,334 (Silver Creek funds) as of June 30, 2013.



Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits – Continued**

*Pension Plan Assets - Continued*

The following table displays information by major alternative investment category as of June 30, 2014 and 2013:

<b>Description</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>	<b>Receipt of Proceeds</b>
Hedge Funds (1)	In liquidation status	(1)	(1)
Hedge Funds	Quarterly	70 days	(2)

1. The Silver Creek funds are currently in liquidation status and closing. There are no liquidity provisions. According to the estimated liquidation schedule, payouts are semiannual.
2. The liquidity for the Grosvenor funds is quarterly with 70 days notice, and redemptions are effective as of the last day of the month. In the case of a withdrawal of all or substantially all (as determined by Grosvenor) of the balance of a Limited Partner's Capital Account, the Master Series generally will pay at least 90% of the estimated Capital Account balance withdrawn within 60 days following the effective date of the withdrawal, with the remainder to be paid as promptly as possible after the completion of the Master Series' audit for the fiscal year in which the withdrawal occurred. Generally the audit reserve is paid between 90-120 days as of the initial payment date, but the fund does reserve the right to pay out the audit reserve upon the completion of the audit for the fiscal year in which the redemption took place.

*Cash Flows*

The Corporation expects to make the following contribution for fiscal year 2015:

Pension Plan	\$10,128
Postretirement Plan	\$411
403(b) Plan	\$4,984

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note H - Pension and Postretirement Benefits - Continued**

*Estimated Future Benefit Payments*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
2015	\$ 9,409	\$ 411
2016	10,068	410
2017	10,754	407
2018	11,498	390
2019	12,250	387
2019 and thereafter	70,970	1,720

**Note I - Commitments and Contingencies**

*Operating Leases*

The Corporation leases land and buildings used primarily by PGHC, LRH and BHC from Prince George's County under a lease agreement. In connection with the refunded Series 1992 Bond Issue, the lease was restated and amended to provide for the use of the related facilities through June 30, 2042, for a one-time, lump-sum payment of \$13,352 and future annual rental payments of \$1 for the remaining term of the lease. The lump-sum payment, made on June 17, 1992, was allocated to the related buildings (\$8,958) and to reduce the deferred rent liability recorded by the Corporation at the time of the restatement and amendment (\$4,394). The amount allocated to the buildings is being amortized over the lesser of the useful life of the assets or the remaining lease term.

Upon termination of the lease, the Corporation is obligated to deliver to the County all of the assets attributable to the operations, as defined, including all fixed and moveable equipment. All such assets will be transferred and conveyed in "as is" condition without warrant as to condition or serviceability.

The Corporation also leases various equipment and computer services under long-term operating lease agreements. Total rental expense for operating leases approximated \$2,244 and \$2,247 for the years ended June 30, 2014 and 2013, respectively.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Commitments and Contingencies - Continued**

*Operating Leases - Continued*

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2014 that have initial or remaining lease terms in excess of one year.

	<u>Amount</u>
Year ending June 30:	
2015	\$ 132
2016	132
2017	120

The Corporation entered into an agreement with an outside vendor to outsource the management information services function and maintenance and provision of software services through December 31, 2014. The remaining payments are expected to be \$538.

*Professional Liability and Litigation*

The Corporation is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Corporation. For such claims, management has accrued a reserve for potential liability in the amount of \$26,870 and \$27,289 as of June 30, 2014 and 2013, respectively (see *Note G*). There is at least a reasonable possibility that some of these cases will be settled against the Corporation, resulting in varying degrees of monetary damages in excess of the recorded reserve. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results of operations.

*Collective Bargaining Agreements*

At June 30, 2014 and 2013, the Corporation has approximately half of its employees working under a collective bargaining agreement. The agreement with 1199 SEIU Health Care Workers East expired April 20, 2013, which was extended through March 31, 2014. Negotiations on a new agreement are ongoing. The term and financial impact of a new agreement are not determinable at this time.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note I - Commitments and Contingencies - Continued**

*Other*

As of June 30, 2014, letters of credit in the amounts of \$1,500 (expiring September 4, 2015), \$1,250 (expiring September 30, 2015), and \$200 (expiring September 4, 2015) are maintained in support of various insurance arrangements and require the payment of annual commitment fees of 0.50%. As of June 30, 2014 and 2013, the Corporation pledged \$2,959 and \$2,986, respectively, as collateral for these letters of credit. The assets pledged are classified as short term investments in the accompanying consolidated balance sheets. The restricted cash and cash equivalents reported in the accompanying consolidated balance sheets represent cash received from donors restricted for specific purposes.

The Corporation was self-insured against workers' compensation claims up to \$300 per claim with no annual aggregate limit prior to July 1, 2004. The Corporation maintains a commercial insurance policy for claims liabilities exceeding these limits. A liability of \$216 and \$68, as of June 30, 2014 and 2013, respectively, has been established for known claims and an estimate for claims incurred but not reported and accrued in the Corporation's accounts payable. Effective July 1, 2004, the Corporation's self-insured limit was raised to \$400 per claim with no annual aggregate. Effective October 1, 2004, the Corporation's self-insurance privileges were revoked and the Corporation purchased a commercial policy to cover all prospective workers' compensation claims. This policy provides coverage for claims up to \$500 per claim with no annual aggregate limit.

**Note J - Maryland Health Services Cost Review Commission**

Certain of the Corporation's charges to patients are subject to review and approval by the Maryland Health Services Cost Commission. Management has filed the required forms with the Commission and believes the Corporation to be in compliance with Commission requirements.

The current rate of reimbursement for all hospital based charges under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medication Innovation and the Commission. The new agreement, which became effective January 1, 2014, is based on the population of the hospital's service area as opposed to case volumes. Thus, a hospital's annual approved revenues are fixed each year based on its service area demographics and not volumes. There is a strong incentive to constrain unnecessary hospital visits and admissions.

The agreement is for five years and grants to the State of Maryland a waiver from prevailing Medicare and Medicaid prospective payment system reimbursement principles as long as the various goals in the agreement are attained. Among the goals to be attained over the life of the agreement are: Savings to the Medicare program of \$300 million, Maryland readmission rates improve to equal the national rate, Maryland provide immediate savings to the Medicare program (shared savings) to equal Medicare's prospective savings from reduced payments to readmission abusers nationally, Maryland Hospital Acquired Condition rates improve to the national average and other quality related benchmarks.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note J - Maryland Health Services Cost Review Commission - Continued**

All patient charges in the Maryland system remain equal for all payers except that Medicare and Medicaid continue to receive discounts to yield lower net charges to those payers.

Effective April 1999, the Commission adopted a charge per case system in which a hospital's actual average charge per inpatient case had to equal an approved target average inpatient charge per case. The population based system described above has replaced the charge per case system with the global based revenue (GBR) system. GBR requires that all hospital charges equal a single annual approved amount (the GBR) representing the new population based approach. Actual charges less than GBR will be added to the subsequent year's GBR for recapture. Actual charges greater than GBR will be subtracted from the subsequent year's GBR for payback. Charge variances in either direction will incur penalties if they exceed 0.5% of GBR.

Although the new waiver was effective on January 1, 2014, the Commission used the GBR methodology for all of fiscal year 2014. For this first year, all of the Corporation's facilities were combined into one large GBR for compliance purposes. The Corporation's charges for fiscal year 2014 exceeded GBR by 0.7%. Therefore, the GBR for fiscal year 2015 will be reduced. All penalties incurred were waived by the Commission.

Additionally, the GBR methodology maintains Commission issued approved rates in each rate center effective for the fiscal year. The actual average unit charge for each center is compared to the approved rate on a monthly basis. Penalties can be incurred if the variance greater than 5% in either direction. No penalties were incurred in fiscal year 2014.

The rate variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis. The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed and billed.

Notes to the Consolidated Financial Statements- Continued  
**Dimensions Health Corporation and Subsidiaries**  
(Dollars in thousands)

**Note K - Related Party Transactions**

The Prince George's Hospital Center Foundation, Inc., the Laurel Regional Hospital Foundation, Inc., and the Laurel Regional Hospital Auxiliary were established to solicit contributions from the general public solely for the funding of capital acquisitions and operations of the associated hospitals. The associated hospitals have recorded their interest in the net assets of the foundations as a non-current asset in the accompanying consolidated balance sheets.

The Corporation's wholly owned subsidiary, Madison Manor, Inc., holds a 25% partnership interest in BCLP and accounts for it under the equity method. The carrying value of the Corporation's investment in BCLP was \$3,200 and \$3,749 at June 30, 2014 and 2013, respectively.

**Note L – Subsequent Events**

Management evaluated all events and transactions that occurred after June 30, 2014 and through October 17, 2014, the date the consolidated financial statements were available to be issued. The Corporation did not have any material recognizable subsequent events during the period.

## **Other Financial Information**

Consolidating Balance Sheet-Obligated Group  
Dimensions Health Corporation and Subsidiaries  
June 30, 2014  
(Dollars in thousands)

	<u>PGHC</u>	<u>LRH</u>	<u>GSS</u>	<u>BHC</u>	<u>Corporate</u>	<u>Total Obligated Group</u>	<u>Other Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Assets</b>									
Current Assets:									
Cash and cash equivalents	\$ 1	\$ 0	\$ 0	\$ 1	\$ 23,885	\$ 23,887	\$ 763	\$ 0	\$ 24,650
Patient accounts receivable, net	35,238	10,535	724	1,766	0	48,263	1,099	0	49,362
Other receivables	614	(7)	0	111	378	1,096	4,256	(2,732)	2,620
Inventories	3,839	2,079	0	381	0	6,299	0	0	6,299
Prepaid expenses and other assets	44	214	0	0	6,094	6,352	1,129	(1,083)	6,398
Total current assets	<u>39,736</u>	<u>12,821</u>	<u>724</u>	<u>2,259</u>	<u>30,357</u>	<u>85,897</u>	<u>7,247</u>	<u>(3,815)</u>	<u>89,329</u>
Due from affiliates	0	0	35,877	15,653	(52,828)	(1,298)	0	1,298	0
Assets limited as to use:									
Restricted cash and cash equivalents	0	0	0	0	3,458	3,458	0	0	3,458
Short term investments	0	0	0	0	2,759	2,759	200	0	2,959
Investments held for self insurance	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>41,913</u>	<u>0</u>	<u>41,913</u>
Total assets limited as to use	0	0	0	0	6,217	6,217	42,113	0	48,330
Property and equipment, net	31,031	13,632	193	1,815	17,285	63,956	2,868	0	66,824
Investments	391	291	0	0	5,834	6,516	3,200	(5,834)	3,882
Deferred financing costs	0	0	0	0	27	27	47	0	74
Other noncurrent assets	<u>3,201</u>	<u>927</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,128</u>	<u>0</u>	<u>0</u>	<u>4,128</u>
Total assets	<u>\$ 74,359</u>	<u>\$ 27,671</u>	<u>\$ 36,794</u>	<u>\$ 19,727</u>	<u>\$ 6,892</u>	<u>\$ 165,443</u>	<u>\$ 55,475</u>	<u>\$ (8,351)</u>	<u>\$ 212,567</u>

(Continued)



Consolidating Balance Sheet-Obligated Group - Continued  
Dimensions Health Corporation and Subsidiaries  
June 30, 2014  
(Dollars in thousands)

	<u>PGHC</u>	<u>LRH</u>	<u>GSS</u>	<u>BHC</u>	<u>Corporate</u>	<u>Total Obligated Group</u>	<u>Other Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Liabilities and net assets</b>									
Current Liabilities									
Current portion of long-term debt	\$ 656	\$ 524	\$ 0	\$ 39	\$ 0	\$ 1,219	\$ 205	\$ 0	\$ 1,424
Current portion of accrued benefit liabilities	0	0	0	0	10,539	10,539	0	0	10,539
Accounts payable and accrued expenses	14,699	6,848	892	841	11,240	34,520	5,746	(3,815)	36,451
Accrued compensation and related items	7,319	3,373	323	407	1,952	13,374	1,011	0	14,385
Advances from third-party payers	9,511	3,429	986	0	0	13,926	0	0	13,926
Total current liabilities	32,185	14,174	2,201	1,287	23,731	73,578	6,962	(3,815)	76,725
Long-term debt, net of current portion	1,212	631	0	(4)	0	1,839	2,601	0	4,440
Due to affiliates	(70,122)	54,229	0	0	0	(15,893)	14,595	1,298	0
Other Liabilities:									
Accrued professional liability costs	0	0	0	0	0	0	26,870	0	26,870
Accrued employee benefit liability	0	0	0	0	52,848	52,848	0	0	52,848
Total other liabilities	0	0	0	0	52,848	52,848	26,870	0	79,718
Total liabilities	(36,725)	69,034	2,201	1,283	76,579	112,372	51,028	(2,517)	160,883
Net assets (deficit)									
Unrestricted	107,758	(41,937)	34,593	18,444	(69,687)	49,171	0	(1,627)	47,544
Restricted	3,326	574	0	0	0	3,900	240	0	4,140
	111,084	(41,363)	34,593	18,444	(69,687)	53,071	240	(1,627)	51,684
Shareholders equity									
Capital contributions	0	0	0	0	0	0	5,834	(5,834)	0
Retained earnings	0	0	0	0	0	0	(1,627)	1,627	0
Total shareholder equity	0	0	0	0	0	0	4,207	(4,207)	0
Total liabilities and net assets	\$ 74,359	\$ 27,671	\$ 36,794	\$ 19,727	\$ 6,892	\$ 165,443	\$ 55,475	\$ (8,351)	\$ 212,567

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Consolidating Statement of Operations-Obligated Group  
Dimensions Health Corporation and Subsidiaries  
For the year ended June 30, 2014  
(Dollars in thousands)

	PGHC	LRH	GSS	BHC	Corporate	Total Obligated Group	Other Entities	Eliminations	Consolidated Total
Unrestricted revenue and other support:									
Patient service revenue (net of allowances and discounts)	\$ 237,337	\$ 93,120	\$ 13,548	\$ 19,340	\$ 0	\$ 363,345	\$ 12,958	\$ 0	\$ 376,303
Provision for bad debts	(19,007)	(7,497)	(1,258)	(2,291)	0	(30,053)	(4,389)	0	(34,442)
Net patient service revenue	218,330	85,623	12,290	17,049	0	333,292	8,569	0	341,861
Other income	27,325	11,582	0	1	461	39,369	6,291	(5,111)	40,549
Total unrestricted revenue and other support	245,655	97,205	12,290	17,050	461	372,661	14,860	(5,111)	382,410
Operating expenses:									
Salaries and benefits	135,703	56,997	6,490	8,396	0	207,586	11,415	0	219,001
DHA physician compensation	14,608	1,395	0	0	0	16,003	(16,003)	0	0
Supplies	31,854	14,138	1,317	3,132	0	50,441	153	0	50,594
Purchased services	35,027	17,695	1,259	3,101	0	57,082	13,814	(5,073)	65,823
Physician fees	13,628	4,745	38	(304)	0	18,107	8,769	0	26,876
Utilities	2,900	1,463	43	203	0	4,609	56	0	4,665
Interest expense	759	479	12	60	0	1,310	165	(38)	1,437
Depreciation and amortization	8,000	3,948	171	485	18	12,622	157	0	12,779
Total operating expenses	242,479	100,860	9,330	15,073	18	367,760	18,526	(5,111)	381,175
Income (loss) from operations	3,176	(3,655)	2,960	1,977	443	4,901	(3,666)	0	1,235
Other income									
Investment income	16	8	1	1		26	2,408	0	2,434
Gain on early extinguishment of debt	0	0	0	0	43,622	43,622	0	0	43,622
Other income	0	0	0	0	0	0	136	0	136
Total other income	16	8	1	1	43,622	43,648	2,544	0	46,192
Excess (deficit) of unrestricted revenue and other support over expenses	3,192	(3,647)	2,961	1,978	44,065	48,549	(1,122)	0	47,427
Other changes in unrestricted net assets:									
Net assets released from restriction for capital acquisition	0	0	0	0	0	0	253	0	253
Change minimum pension liability	0	0	0	0	11,955	11,955	0	0	11,955
Increase (decrease) in unrestricted net assets	\$ 3,192	\$ (3,647)	\$ 2,961	\$ 1,978	\$ 56,020	\$ 60,504	\$ (869)	\$ 0	\$ 59,635

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Consolidating Statement of Operations-Obligated Group  
Dimensions Health Corporation and Subsidiaries  
For the year ended June 30, 2013  
(Dollars in thousands)

	PGHC	LRH	GSSNHC	BHC	Corporate	Total Obligated Group	Other Entities	Eliminations	Consolidated Total
Unrestricted revenue and other support:									
Patient service revenue (net of contractals and disco)	\$ 221,712	\$ 93,986	\$ 16,127	\$ 17,556	\$ 0	\$ 349,381	\$ 10,750	\$ 0	\$ 360,131
Provision for bad debts	(16,710)	(8,754)	(2,709)	(2,105)	0	(30,278)	(2,700)	0	(32,978)
Net patient service revenue	205,002	85,232	13,418	15,451	0	319,103	8,050	0	327,153
Other income	27,170	9,097	0	7	2,491	38,765	6,442	(6,418)	38,789
Total unrestricted revenue	232,172	94,329	13,418	15,458	2,491	357,868	14,492	(6,418)	365,942
Operating expenses:									
Salaries and benefits	133,564	58,849	6,241	8,112	0	206,766	9,547	0	216,313
DHA physician compensation	13,616	1,774	0	0	0	15,390	(15,390)	0	0
Supplies	33,633	13,831	1,432	2,761	0	51,657	100	0	51,757
Purchased services	30,498	14,908	679	3,063	0	49,148	14,767	(6,418)	57,497
Physician fees	10,239	5,339	38	1,799	0	17,415	8,954	0	26,369
Utilities	1,184	1,384	41	301	0	2,910	55	0	2,965
Interest expense	1,816	1,167	24	164	0	3,171	172	0	3,343
Depreciation and amortization	6,608	3,513	102	411	405	11,039	144	0	11,183
Total operating expenses	231,158	100,765	8,557	16,611	405	357,496	18,349	(6,418)	369,427
Income from operations	1,014	(6,436)	4,861	(1,153)	2,086	372	(3,857)	0	(3,485)
Other income									
Investment income	12	4	1	0	0	17	2,240	0	2,257
Total other income	12	4	1	0	0	17	2,240	0	2,257
Excess (deficit) of unrestricted revenue and other support over expenses	1,026	(6,432)	4,862	(1,153)	2,086	389	(1,617)	0	(1,228)
Other Changes in unrestricted assets:									
Net change in appreciation of marketable investments	0	0	0	0	3	3	0	0	3
Net assets released from restriction for capital acquisition	699	0	0	0	0	699	0	0	699
Change minimum pension liability-- <i>Note I</i>	0	0	0	0	28,349	28,349	0	0	28,349
Increase (decrease) in unrestricted net assets	\$ 1,725	\$ (6,432)	\$ 4,862	\$ (1,153)	\$ 30,438	\$ 29,440	\$ (1,617)	\$ 0	\$ 27,823

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